

Message Text

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INFO OCT-01 ARA-16 ISO-00 L-03 SSO-00 INRE-00 EB-11 AID-20

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DRAFTED BY: TREAS:GC:ELMEIGHER

12/14/73

APPROVED BY: ARA/MEX-CPTORREY

CLEARANCES: TREAS:GC:MICHAEL BRADFIELD

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FM SECSTATE WASHDC

TO AMEMBASSY MEXICO IMMEDIATE

C O N F I D E N T I A L STATE 246026

E.O. 11652: N/A

SUBJECT: RENEWAL OF US-MEXICO EXCHANGE STABILIZATION AGREEMENT

REF: STATE 237232

MEXICO 9214

1. THE EMBASSY IS REQUESTED TO DELIVER THE FOLLOWING LETTER TO SECRETARY OF FINANCE LOPEZ PORTILLO, FROM UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS VLOCKER. ORIGINAL BEING POUCHED TO EMBASSY FOR ATTENTION OF FINANCE OFFICER. DEPARTMENT IS PROVIDING COPY TO MEXICAN EMBASSY HERE.

2. VLOCKER SPOKE WITH FERNANDEZ HURTADO AND THE FOLLOWING AGREEMENT IS BASED ON THEIR CONVERSATIONS.

3. TEXT OF LETTER IS AS FOLLOWS:

QUOTE: DEAR MR. SECRETARY:

THIS IS IN REFERENCE TO SECRETARY SHULTZ' LETTER OF DECEMBER 3, 1973, AND OUR RECENT DISCUSSIONS CONCERNING EXTENSION AND INCREASE
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OF THE EXCHANGE STABILIZATION AGREEMENT CONCLUDED BETWEEN THE

SECRETARY OF THE TREASURY AND BANCO DE MEXICO ON DECEMBER 21, 1967, AS AMENDED. I PROPOSE THAT THE AGREEMENT BE FURTHER AMENDED BY AMENDING PARAGRAPHS 3 AND 16. THE ABOVE-MENTIONED PARAGRAPHS WOULD READ AS FOLLOWS:

"3. THE TOTAL AMOUNT OF PESOS PURCHASED BY THE SECRETARY UNDER PARAGRAPH 1 ABOVE, EXCLUSIVE OF ANY PESOS REPURCHASED, SHALL NOT AT ANY TIME EXCEED IN THE AGREGATE THE EQUIVALENT OF \$200 MILLION COMPUTED AT THE RATE AT WHICH SUCH PESOS ARE PURCHASED AS HEREINFTER PROVIDED. THE TOTAL AMOUNT OF DOLLARS PURCHASED BY THE BANK UNDER PARAGRAPH 2 ABOVE SHALL NOT AT ANY TIME EXCEED IN THE AGREGATE \$200 MILLION (EXCLUSIVE OF REPURCHASES)."

"16. ANY OBLIGATION OF THE SECRETARY TO PURCHASE PESOS AND ANY BOLIGATION OF THE BANK TO PURCHASE DOLLARS UNDER PARAGRAPHS 1, 2, AND 3 OF THIS AGREEMENT SHALL TERMINATE ON DECEMBER 31, 1975." THE ENCLOSED CERTIFICATE OF AUTHORITY BY THE GENERAL COUNSEL OF THIS DEPARTMENT ATTESTS TO MY AUTHORITY TO AGREE TO THESE AMENDEMENTS.

IF YOU AGREE TO THE ABOVE-DESCRIBED AMENDMENTS, AND IF THE ENCLOSED CERTIFICATE OF AUTHORITY IS SATISFACTORY TO YOU, I WOULD APPRECIATE IT IF YOU WOULD REPLY STATING THE AGREEMENT OF BANCO DE MEXICO TO THE AMENDEMENTS.

MY LETTER AND YOUR REPLY SHALL CONSTITUTE AN AGREEMENT BETWEEN THE UNITED STATES GOVERNMENT AND THE BANCO DE MEXICO, AND THIS AGREEMENT SHALL ENTER INTO FORCE UPON THE DATE OF RECEIPT OF YOUR REPLY TOGETHER WITH THE APPROPRIATE DOCUMENT SATISFACTORILY EVIDENCING YOUR AUTHORITY TO ENTER INTO THIS AGREEMENT ON BEHALF OF BANCO DE MEXICO, WHICH DATE OF RECEIPT AND ENTRY INTO FORCE SHALL BE IMMEDIATELY COMMUNICATED TO YOU.

IN CONNECTION WITH THE ABOVE AMENDMENTS, I WOULD LIKE TO REFER TO THE PROVISION IN PARAGRAPH 4 OF THE AGREEMENT WHICH CALLS FOR CONSULTATION PRIOR TO A REQUEST TO PURCHASE CURRENCIES. I UNDERSTAND THAT THE BANCO DE MEXICO AT THIS TIME BELIEVES IT UNLIKELY THAT A SITUATION WILL DEVELOPE THAT WOULD OCCASION A REQUEST FOR CONSULTATION REGARDING A PURCHASE OF PESOS BY THE UNITED STATES, I WOULD LIKE, HOWEVER, TO NOT HERIN THE UNDERSTANINGS WE HAVE DISCUSSED AND AGREED UPON IN THE CONSULTATIONS BETWEEN US LEADING TO THE EXTENSION
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OF THE AGREEMENT FOR TWO MORE YEARS.

THESE UNDERSTANDING ARE AS FOLLOWS:

FIRST, THE UNITED STATES WOULD NOT EXPECT TO RECEIVE A REQUEST FOR CONSULTATION REGARDING A PURCHASE OF PESOS UNLESS RECOURSE HAD FIRST BEEN MADE BY THE BANCO DE MEXICO, IN WHOLE OR SUBSTANTIAL PART, ON THE SWP FACILITY BETWEEN THE BANCO DE MEXICO AND THE FEDERAL RESERVE BANK OF NEW YORK.

SECOND, SHOULD TRANSACTIONS UNDER THE FEDERAL RESERVE SWAP FACILITY NOT BE SUFFICIENT TO OFFSET LOSSES IN MEXICAN RESERVES, PURCHASES OF PESOS BY THE UNITED STATES UNDER THIS AGREEMENT WOULD BE MADE ONLY AT SUCH TIMES AND IN SUCH AMOUNTS AS ARE REASONABLY PROPORTIONATE TO LOSSES IN RESERVES. FOR THIS PURPOSE, MEXICAN RESERVES WOULD BE CALCULATED ON THE BASIS OF THE PRESENTATION IN THE PUBLICATION INTERNATIONAL FINANCIAL STATISTICS OF THE INTERNATIONAL MONETARY FUND; NAMELY, OFFICIAL HOLDINGS OF GOLD, FOREIGN EXCHANGE, SPECIAL DRAWING RIGHTS AND RESERVE POSITION OF THE FUND.

THIRD, SHOULD AGGREGATE OUTSTANDING PURCHASES OF PESOS BY THE SECRETARY AT ANY TIME EXCEED THE EQUIVALENT OF \$100 MILLION, THE BANCO DE MEXICO WOULD DEPOSIT IN A SPECIAL ACCOUNT IN THE UNITED STATES EXCHANGE STABILIZATION FUND AN AMOUNT OF DOLLARS EQUIVALENT TO THE EXCESS ABOVE \$100 MILLION OF PESOS EXPENDED BY THE SECRETARY. THESE FUNDS WOULD REMAIN ON DEPOSIT IN THE EXCHANGE STABILIZATION FUND UNTIL REPURCHASED. THE SECRETARY WOULD PAY INTEREST IN THESE FUNDS AT A RATE OF 1/2 OF 1 PERCENT BELOW THE RATE SPECIFIED IN PARAGRAPH 6 RELATING TO CALCULATION AND TIMING OF INTEREST PAYMENTS WOULD BE APPLICABLE. UNDER EXCEPTIONAL CIRCUMSTANCES AND UPON REQUEST BY THE BANCO DE MEXICO, THE SECRETARY MAY AGREE THAT THE SPECIAL UNDERSTANDINGS RELATING TO FUNDS IN EXCESS OF \$100 MILLION WOULD NOT APPLY.

I WOULD APPRECIATE RECEIVING CONFIRMATION THAT YOU ARE IN ACCORD WITH THESE UNDERSTANDINGS.

SINCERELY YOURS,

PAUL A. VOLCKER

END QUOTE

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4. PLEASE INFORM SECRETARY PORTILLO THAT USG HAS NO OBJECTION TO PUBLIC REFERENCE TO RENEWAL AND INCREASE OF STABILIZATION AGREEMENT ONCE HE HAS INFORMED US OF HIS AGREEMENT TO THE AMENDMENTS AND THE UNDERSTANDINGS. RUSH

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